

**Sweet Home Central
School District**

**Risk Assessment,
Recommendations and Findings
for 2021**

Sweet Home Central School District

Risk Assessment, Recommendations and Findings for 2021

Table of Contents

	<u>Page</u>
Transmittal Letter	
Risk Assessment	
Overview	1-2
Risk Management Tolerance Model	3
Risk Assessment Matrix	4
Internal Control Recommendations	
Overview	5
Budget and Budget Monitoring	6-8
Cash Management	9
Purchasing, Accounts Payable, and Disbursements	10

To the Audit Committee of the Board of Education
of the Sweet Home Central School District

We are pleased to report on the annual risk assessment of the Sweet Home Central School District (the "District"). The purpose of our engagement is to assist you in the development of a risk assessment of District operations, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiry, observations and tests of internal control.

The District's risks are the risks that an action or event will adversely affect an organization's ability to successfully achieve its objectives. The Risk Assessment section of the report analyzes the significant risks that were identified during our engagement.

For purposes of this report, internal control is a process affected by the Board of Education (the "Board"), department heads and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting and safeguarding of assets. We have evaluated the District's current internal controls and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As noted, the purpose of our engagement was to assist you in improving the internal controls and reducing the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system. In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined or reviewed the information, and express no assurance thereon.

The accompanying comments and recommendations are intended solely for the information and use of the Audit Committee, Board of Education, department heads and others within the District and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your District for their cooperation. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Tronconi Segarra & Associates LLP

Williamsville, New York
February 1, 2022

Risk Assessment

Sweet Home Central School District

Risk Assessment

Overview

The Sweet Home Central School District's (the "District") risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. During our engagement we became aware of various sources of risk that impact the District. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications on the District.
- A moderate impact suggests that the risk could have implications for the District's ability to succeed.
- A significant impact suggests that the risk would have important implications on the District.

Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur, despite the current risk management practices in place.

The Risk Management Tolerance Model and the Risk Assessment Matrix that follows summarizes these risks and assesses their impact and likelihood.

Cycles plotted in the red sections of the model are considered to be high risk, and as such, the related deficiencies should be given urgent attention in terms of priority. Cycles plotted in the yellow sections are considered to have moderate risk, are considered to be important, and should be given second priority after the high-risk cycles. Cycles plotted in the green section of the model are considered least risky and remediation efforts to address deficiencies in these cycles would be expected to be addressed during routine operations of the District.

Sweet Home Central School District

Risk Assessment (continued)

We have developed the risk assessment around significant financial transaction cycles as a means by which the associated risks can be easily understood and managed. The Internal Control Recommendations section of this report presents recommendations with more detailed information regarding criticality and implementation timeliness. In accordance with the rotation plan set forth in the 2021-2022 Internal Audit Plan, the significant cycles or areas in which we have performed testing are as follows:

- Budget and Budget Monitoring (BM)
- Cash Management (CM)
- Purchasing, Accounts Payable, and Disbursements (AP)

Sweet Home Central School District

Risk Assessment (continued)

Risk Management Tolerance Model

Impact	Significant			
	Moderate			
	Minor	CM, AP	BM	
		Low	Medium	High
		Likelihood		

Sweet Home Central School District

Risk Assessment (continued)

Risk Assessment Matrix

Cycle	Risk Assessment Based on Procedures Performed	Impact	Likelihood
BM	We noted minor overall risk in the Budget and Budget Monitoring cycle.	Minor	Medium
CM	We noted minor overall risk in the Cash Management cycle. There were no control deficiencies noted at the time of our analysis.	Minor	Low
AP	We noted minor overall risk in the Purchasing, Accounts Payable, and Disbursements cycle.	Minor	Low

Internal Control Recommendations

Sweet Home Central School District

Internal Control Recommendations

Overview

Internal control recommendations represent those areas that afford department heads of the District the opportunity to improve financial reporting and internal controls, to better safeguard District assets and/or to more efficiently or accurately record, summarize and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in costs savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation. Criticality ratings considered included routine, important and urgent. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto. Short-term refers to a finding that we believe can be corrected within one year. Long-term refers to a finding that may require changes to organization, systems and procedures of organization that may require over one year to effectuate change.

As a result of our procedures performed, there were three total recommendations. The number of recommendations in each internal control area is as follows:

Internal Control Area	Number of Recommendations	Criticality			Timeline	
		Routine	Important	Urgent	Short-Term	Long-Term
Budget and Budget Monitoring (BM)	2	2	0	0	2	0
Cash Management (CM)	0	0	0	0	0	0
Purchasing, Accounts Payable, and Disbursements (AP)	1	1	0	0	1	0
Total Recommendations	3	3	0	0	3	0

Sweet Home Central School District

Internal Control Recommendations (continued)

Budget and Budget Monitoring (BM)

RECOMMENDATION #1

Criticality: Routine

Timeline: Short-Term

Finding: The District did not properly follow its budget transfer policy during the year ended June 30, 2021.

Background: For each budget transfer of salaries and other expenses, the District's budget transfer policy sets authorizations based on established threshold amounts. Budget transfers up to \$25,000 are to be approved by the Director of Finance and Plant Services. Budget transfers between \$25,001 and \$50,000 are to be approved by the District's Superintendent. Lastly, budget transfers over \$50,000 require the Board of Education's (the "Board") approval. A budget transfer request form is completed and primarily utilized for documenting the approval of budget transfers other than those requiring Board approval.

We performed testing of budget transfers within the respective authorization thresholds. We noted one budget transfer below \$25,000 for which a budget transfer request form was not completed. The business office provided email support for the budget transfer which was signed by the District Treasurer rather than the Director of Finance and Plant Services. We noted each of the 11 budget transfers between \$25,001 and \$50,000 were documented with a budget transfer request form approved by the Director of Finance and Plant Services, rather than the Superintendent.

Rationale:

- **Impact:** *Minor* – The District is subject to the risk of improper budget transfers, and in turn, improper budget to actual financial reporting throughout the year. However, the risk is mitigated as all budget transfers of \$50,000 or less which we tested were approved by the Director of Finance and Plant Services. Additionally, the Board of Education receives a monthly budget transfers report, as well as other budget to actual reports.
- **Likelihood:** *Medium* – Controls were not operating effectively, as each of the budget transfers between \$25,001 and \$50,000 which we tested were not documented as being approved by the Superintendent.

Sweet Home Central School District

Internal Control Recommendations (continued)

Recommendation: We recommend that the District adhere to the budget transfer policy for budget transfers that require the authorization of the Superintendent. If feasible, the District should consider amending the budget transfer policy to either delegate the Superintendent's authority for approving budget transfers to align with the current practice of most budget transfers being authorized by the Director of Finance and Plant Services, or to possibly require applicable budget transfers to be approved by both the Superintendent and the Director of Finance and Plant Services.

Additionally, the District should evaluate if the budget transfer request and approval process can be completed within the WinCap accounting software.

Sweet Home Central School District

Internal Control Recommendations (continued)

RECOMMENDATION #2

Criticality: Routine

Timeline: Short-Term

Finding: The District does not have written instructions outlining the development of the annual District budget.

Background: The District does not have one set of formal written procedures or work instructions for the budget process. The information obtained from the various department heads in developing the annual budget is maintained in a binder by the Director of Finance and Plant Services. The Director of Finance and Plant Services formulates the entire budget through the use of Excel spreadsheets. Although the District has established a budget planning and development policy which guides the process, the specific instructions for procedures completed by the Director of Finance and Plant Services and all staff members involved in the process is not documented in writing.

Rationale –

- **Impact:** *Minor* – Due to the fact there are no written instructions outlining the procedures involved with the development of the District’s annual budget, this increases the risk of interruption within the business cycle in the event one or more employees are unexpectedly unavailable to perform these duties.
- **Likelihood:** *Low* – Although no such instructions exist, we noted that all staff involved in the budget development process appear to be aware of their duties.

Recommendation: We recommend that the District create written instructions outlining the development of the District’s annual budget, including the specific documentation compiled and prepared by the Director of Finance and Plant Services. This would assist in any staff transitions and training of new staff involved with such procedures.

Sweet Home Central School District

Internal Control Recommendations (continued)

Cash Management (CM)

We have no findings or recommendations as a result of our work in this area.

Sweet Home Central School District

Internal Control Recommendations (continued)

Purchasing, Accounts Payable and Disbursements (AP)

RECOMMENDATION #1 (Repeat Recommendation)

Criticality: Routine

Timeline: Short-Term

Finding: The District does not have written instructions outlining accounts payable functions and procedures.

Background: Although there is a formal written policy for various duties in regards to purchasing procedures, this does not cover everything associated with accounts payable functions as the policy's primary focus is on the guidelines and restrictions involving the purchasing functions. Staff should be provided with written instructions to assist them in properly performing their necessary duties. Written instructions aid in ensuring employees understand their responsibilities, hold staff accountable and also aid in staff transitions. Currently, no such instructions exist; however, we noted that all staff involved in the accounts payable functions appear to be cross-trained and well aware of their duties.

Rationale -

- **Impact:** *Minor* – Due to the fact there are no written instructions outlining accounts payable functions and procedures, this increases the risk of interruption within the business cycle in the event employees are unexpectedly removed from their responsibilities.
- **Likelihood:** *Low* – Although no such instructions exist, we noted that all staff involved appear to be cross-trained and are well aware of their duties.

Recommendation: We recommend that the District create written instructions covering the duties involved with the accounts payable cycle. This would assist in any staff transitions and training of new staff involved with any of the accounts payable procedures.